

**Barclays Global Financial Services Conference  
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**Jes Staley, Barclays Group Chief Executive Officer  
Q&A Session, hosted by Jason Goldberg, Equity Research Americas**

*This transcript has been edited by the company.*

**Jason Goldberg:**

Any questions from the audience?

**Audience Member:**

There have been a lot of recent noises about finally capping regulatory capital requirements for banks by the end of this year, early next year. What's your take on this? We heard similar noises before and it hasn't come to pass. Do you believe it this time? And if so, what do you think's changed?

**Jes Staley:**

We never doubt the Governor of the Bank of England. No, the Governor, Mark Carney, has been very clear in saying that he thinks we are at the end stage of the capital requirements being adjusted for banks. And he's made that comment quite publicly.

I also think it was a very interesting move when the Bank of England moved the base rate from 50 basis points to 25 basis points. In addition to the base rate move, which we passed on to our customers that very night, he also had this program to give basically zero cost funding for banks to on-lend in the UK.

But then very importantly for us, he changed the calculation of the leverage ratio, excluding about GBP70 billion of UK treasury debt that we have on our balance sheet. That's a direct statement to Basel I think, almost as much as it was to the United Kingdom economy.

It followed a comment by Governor Carney, which I think we take very seriously, which is, 1) he does not believe the UK should go to zero interest rates, and clearly does not believe it should go negative and 2) very importantly, particularly for a governor of a central bank, he said that the profitability of the UK banking system is important.

Now I think, and I said earlier to Kayla this morning, on central bank policies we may have run the course where the cost of further monetary accommodation may be exceeding the benefits.

Part of that is recognizing that if you are too aggressive on monetary policy, you damage your financial system. And again, that may be dragging economies more than the incentive you'd hoped that lower interest rates provide to consumers.

We're very encouraged by what Governor Carney has said. We think he has reacted to Brexit in a very sensible way. So yes, I think we do hope as I said that the regulators now are going to shift their focus from levels of capitalization in the banking industry to levels of profitability in the banking industry.

**Jason Goldberg:**

One of the things we thought we'd do this year is use the automated response system in the lunch room. On all your tables there's clickers. Again, we have such a diverse audience, we thought we'd ask some macro questions just to get a sense in terms of where you are.

So I guess first off to the audience, do you believe UK's decision to leave the EU will cause prolonged economic slowdown/recession in the UK -- 1) no, 2) shallow, 3) moderate recession, 4) significant recession?

**Jes Staley:**

Is there music?

**Jason Goldberg:**

That'd be nice, it costs extra. And so -- basically half the room thinks shallow but limited slowdown.

Jes, you kind of talked about how Barclays is positioned to handle it, but I guess what is your view on the whole economic situation?

**Jes Staley:**

Yes, my own experience has been that a significant economic contraction is basically generally preceded by a restriction in the supply of credit. What we saw was a political shock in the vote that may lead to an economic response.

But the financial system in the UK, at least in terms of liquidity and capital and extending credit, is in very good shape. And as I talked about, we have been extending our credit. We see no impairment issues in the unsecured side with the UK consumer. In fact, we see spending going up through our platform. We see confidence in small businesses.

So I think we had a temporary dip in consumer confidence following the political impact of Brexit, but I would have pushed number two as well. I think if there is an impact, it will be shallow and a limited slowdown. So I agree.

**Jason Goldberg:**

We'll go to another automated response question. What are your expectations for the UK Central Bank policy for the rest of the year into 2017 -- 1) stable, 2) further cut for a 10 bps rate, 3) cut of 25 bps to zero, or 4) greater than 25bps cut, going negative?

**Jes Staley:**

I would agree with that again. There are two things that are interesting about this debate around the Federal Reserve and whether they raise rates in September. One is that will be increasing this sort of disengagement of the US Federal Reserve on the one hand and the BoJ on the other hand once we get into tightened monetary policy. The other is buying public equities. So there is a massive divergence in process between central bank policy with the United States and with central bank policy in Japan.

But the other thing that happens is as the US raises rates -- and we do believe they're probably going a little slower than they would otherwise because of the rest of the world economy -- it does take pressure off someone like the Bank of England to cut more. That 25 basis points in the base rate has more impact if the US is raising rates.

So to a certain extent, I wonder if the calculation being done with the Fed is if raising rates albeit modestly in the United States, takes some pressure off the European Central bank, the Bank of England, and the Bank of Japan to increase the accommodative policies that they have.

**Jason Goldberg:**

We'll take one more from the ARS because it ties into this question and I saw a couple of hands up.

When do you believe the US Fed will raise rates -- 1) September, 2) December, 3) next year, and 4) not any time soon?

We have Richard Fisher tomorrow at lunch, so we'll get his take as well.

December is the consensus. I think 54% could be on the nose what Fed Funds futures were saying on Friday.

**Jes Staley:**

I won't steal Richard's thunder, but whilst there may be a bias in some camps, and I think some camps out of Barclays are for a September move.

Generally the Fed likes to move when the market has priced in that move. And clearly I think, as this poll shows, the market is not yet pricing in at September.

**Jason Goldberg:**

I'm going to email this to Janet after.

**Audience Member:**

We've seen a couple of corporate bond deals at zero or near zero. What kind of appetite or what kind of calendar would you see around that level? It seems odd that anybody wouldn't borrow at negative, or that anybody would lend at negative.

**Jes Staley:**

You saw that Vodafone £1 billion+ deal that we did which is reflective of that. For sure, this has been a very robust debt capital markets year to date on the investment-grade side and the high yield side. And the high yield indices appreciated about 100 basis points now. So that robustness is going to continue.

The issue or the challenge for me is that buyers of those debt instruments obviously are not buying it for yield. They're buying it for asset appreciation. And if you're looking for returns in the volatility of the underlying par value, that gets dicey when things start to turn the other way.

So I think you'll see a robust amount of issuance. That's what we see. We're very active in that, obviously. But I think everyone has to keep their eyes very much wide open, because when you're at close to zero interest rates, changes in interest rates will have a massive impact on the asset

class of its underlying value. It's going to be a risk.

**Audience Member:**

Could you talk a little bit about how Barclays' global corporate base is thinking about the US presidential election?

**Jes Staley:**

I think the only thing that I would say, and connect it to Brexit, is as a geopolitical matter, at least in my lifetime, that the developed world has seen free trade and globalization and integration of the global economy as a worthwhile endeavor to try to see global peace and global cooperation.

The Brexit vote to a certain extent was the first major move by a developed nation to pull back. And I think some of the narrative of the election in the United States is very much around questioning the vision of globalization and free trade as an instrument of global policy. You see the position of both candidates with respect to the free trade agreements, and that could have a very significant and a substantial long-term impact on the global economy.

**Jason Goldberg:**

We have a couple more audience response questions. These seem to be fun. With most global banks trading below tangible book value, what do you see as the most significant driver impacting valuations -- 1) regulatory, 2) earnings weakness, 3) macroeconomic, and 4) conduct overhang?

So 42% earnings weakness, and then evenly split regulatory matters and macroeconomic conditions. We like that conduct is now in the rearview mirror, which is good.

**Jes Staley:**

Yes, and I think as I said in the prepared remarks, we think we pretty much have the capital issues wrestled to the ground. So the focus is on earnings, because you cannot sleep as a management team with your stock trading below book value.

But also as I said, the overall investment banking industry globally -- not just in Europe, but equally as much in the US -- in almost every case, investment banks are generating below their cost of capital. That is not sustainable if you want to have a global economy completely depending on the capital markets which run through London and New York.

I think there has to be an acceleration by banks in terms of their cost structure, their allocation of capital to generate returns that at least get to the cost of capital if we're going to stabilize the world banking sector.

**Jason Goldberg:**

Jes, I cover obviously the US banks, and it looks like their multiples have improved more significantly than the Europe banks' multiples. What do you think generally the European banks have to do to kind of catch up, or maybe to catch up to the US peers and get above them?

**Jes Staley:**

I think as many people have said, the US has a much more advanced capital markets than Europe does that has allowed financing of economic growth to move to the capital markets and off bank balance sheets much quicker in the United States than in Europe. I think the early stress testing of the US banking industry had a marked impact on how quickly the banks reacted. It was much less effective in Europe.

But this is one reason why I think London is still so important for Europe. Anyone out here who's involved in the debt capital markets or in credit knows that perhaps the most important number

you need to have in assessing the value of a bond is loss given default. Will you get 80 cents on the dollar back if there's a bankruptcy, or 60 cents on the dollar.

One of the great accomplishments of the US financial system is coming out of 2009 there was \$3.5 trillion of defaulted debt in the United States. It got completely renegotiated in 18 months. Go try to calculate the loss given default ratio of a bond under Italian law. Go try to figure out the loss given default ratio under Spanish law. What you realize is simply as a legal structure, perhaps the only financial center in Europe that has the ability to build in a debt capital markets compatible to the US is London because of its legal system.

It is issues like that that I think should influence one's view of Brexit. But I think the size of the capital markets, and then how quickly the US regulators worked on stress testing, was a big help.

**Jason Goldberg:**

We'll take one more ARS question. What do you see as the greatest capital challenge for the European banks -- 1) IFRS 9, 2) Basel IV, 3) TLAC MREL, and 4) conduct charges.

And the answer is by far RWA inflation/Basel IV. Which is interesting given your comments in the beginning, and there was a lot of media over the weekend on Basel talking about not really wanting to increase how much capital is in the system.

**Jes Staley:**

I would say Tushar, our CFO, would have said all of the above. But I personally -- and this is the only place where I disagree -- I personally probably would be more with number one with IFRS 9.

But again, when we had the Brexit vote, the market cap of Barclays fell as I'm sure most of you know, about 30% in two days. The reality is that based on the level of capital and liquidity that Barclays had during that event, we were fine. We were more liquid than the Bank of England. And the cooperation between the Bank of England and a bank like Barclays was fabulous. We were



talking to them every two hours for the first three days post the Brexit vote.

In fact, I think the Brexit vote may have been a great test run of how much the market feels that the banking industry is now capitalized to an appropriate level and has the right degree of liquidity, because there was not a peep.

So I think there may be some things at the margin, but again, I would go back and support the comments by the Governor Bank of England that effectively, I think we're done.

**Jason Goldberg:**

Great. On that note, please join me and thank Jes for his time today.

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